COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AN D ENERGY

Pricing and Procurement of)

Default Service pursuant to) DTE 99-60A

<u>G.L. 164, " 1B </u>)

COMMENTS OF

<u>WESTERN MASSACHUSETTS INDUSTRIAL CUSTOMERS GROUP</u>

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<u>INTRODUCTION</u>

The Western Massachusetts Industrial Customers Group ("WMICG") is pleased to supply comments to have had the opportunity to participate in the Technical Session on May 25, 2000 and to supply the following additional responses to the questions in the Department's Order dated May 12, 2000.

WMICG believes it is critical that the Department price electric default service properly to provide customers with the proper pricing signal and to avoid cross-subsidies. Default service will be the primary service for all customers when standard offer service terminates in 2004. Customers will leave default service only if retail marketers provide a product that is more valuable to a particular customer. Some customers will demand a fixed, fully hedged price that should be acquired from a marketer to avoid the volatility in the market. Default service should not artificially protect customers from market volatility, but should transmit true market prices.

RESPONSES TO QUESTIONS

Question 1: Are there data that demonstrate that the costs associated with providing default service will differ significantly among customer classes? If so, please provide a full description of such data and discuss the manner in which customer classes can or should be differentiated for the purpose of establishing different default service prices. Would such differentiation be consistent with or offensive to the statutory scheme for restructuring the electric industry?

Response 1: All parties acknowledged at the technical session that there are costs differences associated with providing default service to various rate classes or customer groups based on voltage of service (losses) and peak/off-peak usage. In addition, several parties noted that there is a risk factor that impacts costs based on the quantity or volume risk assumed by the wholesale supplier.

WMICG agrees that there are cost and risk differences. However, the volume risk differences arise primarily because of the average monthly or six month bidding prices requested by the local electric distribution company. WMICG suggests that for large customers this volume risk can be avoided by requiring a market based index in the bidding to procure wholesale default service power, such as used by Mass Electric Company for July and August, 2000, where the bidders bid a fixed supplier fee plus the market-clearing prices for the wholesale electric products. The retail prices for default service to large customers should track the purchase price.

Question 2: Are there data justifying more frequent solicitations for large commercial and industrial customers?

Response 2: Bids for large customers (over 500 KW) should be based on a market-index plus a fixed supplier fee. With a market responsive type bid, the bidding for large customers need not be more frequent than for any other group of customers.

Question 3: Are the distribution company's overhead and administrative costs per KWH associated with providing default service expected to be significant when compared to the bid price for default service? If the number of customers on default service increases significantly either during the transition period or at the end of the transition period when standard offer service is terminated, how would these overhead and administrative costs per KWH be affected?

Response 3: Distribution companies indicated at the technical session that incremental overhead and administrative costs associated with default service are not expected to be significant. WMICG suggests that the Department should establish a maximum incremental overhead and administrative cost factor and prohibit any additional recovery for such costs.

Question 4: If a distribution company's overhead and administrative costs associated with providing default service were to be included in the price for default service paid by customers, how should these costs be estimated? Can these costs be quantified only in the course of a rate case proceeding?

Response 4: Total administrative and general overheads for a distribution can only be quantified in a rate case. Incremental A & G costs could be estimated based on evidence submitted by the Companies subject to review and comment by the parties.

Question 5: Does the Department's proposal sufficiently address concerns that competitive suppliers may seek to shift their customers to default service during peak months when the default service price is lower than prices available in the wholesale energy market? Are there ways that the proposal could be revised to better address these concerns?

Response 5: As outlined in the response to question 1, WMICG believes that the only way to avoid inefficient arbitrage is to price the service correctly. Use of average monthly or six-month priced default service will not avoid arbitrage for large customers over 500 KW. WMICG suggests the market-index plus a fixed supplier fee for large customers to reduce uneconomic arbitrage.

Question 6: Are the default service prices established according the Department's proposal an appropriate indicator of average monthly market prices? Does this interpretation meet the Act's requirements?

Response: 6: Under the current wholesale markets actual average monthly market prices are only known after the end of a month and the determination of the weighted average clearing prices for all wholesale products. An average monthly bid received from a wholesale supplier may be above or below the actual average monthly clearing price. If a reconciliation provision is retained for default service any under or over recovery of costs is reconciled in a later period and charged to a group of customers that may not have caused the costs to be incurred. Default service prices should be reconciled to actual each month if a reconciliation is allowed. Failure to do so allows recovery of costs incurred by one customer or group of customers from a different group of customers. This also raises the issue of how default service prices are billed to an individual customer, on a bill rendered or pro-rated basis based on actual usage within its billing cycle reconciled to actual prices.

Question 7: Please discuss in specific detail what function, if any, the Department should have in overseeing default service procurement.

Response 7: The Department must establish the products to be acquired and the bidding procedures of the local distribution companies in advance of the bids. Any deviation from the approved RFP must be documented and reviewed by the Department to avoid additional or cross-subsidies of costs among retail ratepayers.